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FISCAL IMPACT STATEMENT

LS 6195

BILL NUMBER: HB 1056

NOTE PREPARED: Feb 16, 2009

BILL AMENDED: Feb 16, 2009

SUBJECT: Military Service Credit for TRF Members.

FIRST AUTHOR: Rep. Kersey

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill:

- (1) grants, under certain conditions, up to six years of service credit in the Teachers' Retirement Fund (TRF) for a member's past active duty military service;
- (2) grants under certain circumstances a member of the 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) up to six years of service credit for active duty military service;
- (3) provides that except for WWII veterans the service credit may be used only in the computation of benefits to be paid after June 30, 2011;
- (4) provides that for WWII veterans the service credit may be used only in the computation of benefits to be paid after June 30, 2009; and
- (5) authorizes under certain conditions a member of the 1977 Fund to purchase up to two additional years of service credit for active duty military service.

Effective Date: July 1, 2009.

Explanation of State Expenditures: (Revised) Summary- The total annual cost for crediting military service in TRF is estimated to be between \$3.5 M and \$4.5 M, while the total increase in unfunded accrued liabilities is estimated to be between \$51 M and \$78 M.

Specifying the dates for receipt of benefits until after June 30, 2011, for those eligible veterans who did not serve in WW II will result in minimal reduction in the above estimate. This will be updated upon receipt of data from the actuaries for the TRF.

Of the \$3.5 M to \$4.5 M total annual cost, an estimated \$2.9 M to \$3.4 M is attributable to the Pre-1996

Fund, which is paid from the state General Fund, and approximately \$0.6 M to \$1.1 M is attributable to the 1996 Fund, which is paid by local school corporations.

Of the total unfunded accrued liability of \$51 M to \$78 M, approximately \$40 M to \$57 M is attributable to the Pre-1996 Fund, and approximately \$11 M to \$21 M is attributable to the 1996 Fund.

NOTE: This fiscal impact estimate is based on 2007 data. It will be updated upon receipt of 2008 data.

Background Information:

The TRF conducted a survey to determine the potential number of retirees who might qualify for this benefit. There were 40,000 retirees reported in the July 1, 2007, valuation data. Approximately 6,300 of the retirees were born prior to 1936. Surveys were sent to 5,800 of these members, of whom, 3,000 responded to the survey.

Participants born after 1935 were not surveyed because of the absence of data to support cost calculations for participants that served after the Korean War. However, using methodology and assumptions consistent with the calculations for participants with WW II and Korean War military service, potential costs have been developed to include all participants.

Post-Korean War Military participation is assumed to range between 10% and 20% of the male TRF membership.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) (1) *TRF:* See *Explanation of State Expenditures* for the impact to the 1996 Plan. The 1996 Plan is funded by local school corporations with a level percent of payroll. Currently, school corporations contribute 7.0% of payroll, effective January 1, 2009.

Specifying the dates for receipt of benefits until after June 30, 2011, for those eligible veterans who did not serve in WW II will result in minimal reduction in the above estimate. This will be updated upon receipt of data from the actuaries for the TRF.

(Revised) (2, 3, 4, & 5) *1977 Police Officers' and Firefighters' Pension and Disability Fund:* There will be an additional cost to the employer as the bill also provides that the Fund member's employer is to contribute an amount necessary to amortize the active duty military service liability over a period determined by the PERF Board, but not more than ten years. As an illustration, the actuary for the 1977 Fund has determined the total cost to the employer to purchase 2.5 years of service for one 41-year-old firefighter to be \$15,569. The annual amount to amortize this amount over ten years would be \$546. The total employer cost will depend upon the number of 1977 Fund members eligible for the military service credit, their respective ages, and the number of years granted.

Specifying the dates for receipt of benefits until after June 30, 2011, for those eligible veterans who did not serve in WW II will result in minimal reduction in the above estimate. This will be updated upon receipt of data from the actuaries.

These provisions can also result in increased future payouts from the 1977 Fund in certain situations, as described below.

The bill provides that the purchase of service credits by a participant in the 1977 Fund and the granting of military service credit must be at full actuarial cost. This means the following are considered: (1) the member's salary at the time the member actually makes a contribution for the service credit and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member of the 1977 Fund may wish to purchase service credit and the potential impact to the funds are identified below.

(A) If a member wants to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current 1977 Fund service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments (COLAs) that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to the. There also would be no immediate real gain to the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to the 1977 Fund.

(B) If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service purchased was based on the member's salary **at the time of purchase** before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the 1977 Fund.

Background Information. Cities and towns with members in the 1977 Police Officers' and Firefighters' Pension and Disability Fund appropriate money from police and fire pension funds. The sources of these funds are property taxes, Motor Vehicle Excise Taxes, and Financial Institutions Taxes. The 1977 Police Officers' and Firefighters' Pension and Disability Fund is funded by a 19.5% contribution rate of payroll by the participating cities and towns.

Explanation of Local Revenues:

State Agencies Affected: TRF.

Local Agencies Affected: School corporations with members in the Teachers' Retirement Fund; Cities and Towns with members in the 1977 Police Officers' and Firefighters' Pension and Disability Fund.

Information Sources: John Dowell, Alliance Benefit Group; 317-803-7777; Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317-576-1508.

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DEFINITIONS

Funding– A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Present Value– The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Unfunded Actuarial Liability - The unfunded liability of a retirement system at any time is the excess of its actuarial liability as that time over the value of its cash and investments.